

November 19, 2004

Ms. Katherine D. Pelletreau
Executive Director
Maine Association of Health Plans
250 Greely Road
Cumberland, ME 04021

Re: Comparison of Commercial Provider Reimbursement in Maine, Massachusetts, and
New Hampshire

Dear Katherine :

At the request of the Maine Association of Health Plans (MEAHP), Milliman conducted a survey of health plan reimbursement for commercial business in Maine, Massachusetts and New Hampshire. This data and the results are based on voluntary participation and contribution of data from the commercial health insurers described in the letter. In performing this analysis, we relied on data and other information provided by the contributors. Milliman has not audited the data. To the extent that the underlying data is inaccurate or incomplete, the compilation of results would similarly be inaccurate or incomplete.

The results of our compilation of the survey results are included as Exhibit 1. These results should not be distributed without this letter.

Due to confidentiality agreements, none of the carrier's data can be individually revealed. As a result, we are unable to reveal certain aggregate measures, as this too may reveal individual carrier data. A description of the methods used to produce the attached compilation follows.

Description of Survey

From each participant we requested reimbursement data from three components of healthcare delivery – inpatient hospital, diagnostic imaging and physician office visits.

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For inpatient facilities, Milliman requested allowed charges, segmented into medical, surgical, maternity and psychiatric/substance abuse categories. Within each of these categories, we additionally requested allowed charges for representative, higher volume DRGs. The sub-totals for each category represent a comprehensive comparison of allowed charges. However, since the average per-admission or per-day allowed charge may vary due to a mix of stay-types, we requested the specific DRGs to test results for potential mix variation. (We note there still may be some variation due to severity within DRG.) We compared the ratios of allowed charges at the DRG-level to generally confirm the relative allowed charge levels of each sub-total. For example, the All-Surgical Stays sub-total shows Maine allowed charge/day as 127% of the average for Massachusetts. The ratios for each of the selected five DRGs range from 119% to 178%. This generally confirms the reliability of cost ratios for the category total and indicates that mix difference is not likely an explanation that the Maine surgical allowed charge per day is 27% higher than Massachusetts.

Average costs for each state were determined using the weights based on the claim volumes reported by the contributing carriers. Where a volume was not reported, we used estimated market share as a proxy.

Allowed amounts are defined for the purposes of this survey as the amount, after discounts, that each health insurer negotiates with the provider. It represents the total of the member and the carrier liability and is not reduced for cost-sharing (deductibles, copays, and coinsurance) or COB or other payer responsibility. In this letter, the term "charges" alone should be interpreted as "allowed charges" as defined in this paragraph. Since billed charges are not the basis for the payment, they are not considered in this analysis.

Exhibit 1 displays allowed charges per day and the ratio of Maine to each of the other two states. Also, we show the ratio of allowed charges per admission. The difference in these statistics is due to the variation in average length of stay between carriers and states. At the DRG-specific level, some variation in length of stay exists. In total, results are not materially different under the two bases.

We note that BCBS of Massachusetts uses a slightly different set of DRG definitions. We had BCBSMA map their AP-DRG reported results into the CMS-DRGs used by the other carriers. The crosswalk is shown in Exhibit 1.

For comparing costs of diagnostic imaging and physician office visits we generally took the same approach as inpatient hospital.

For diagnostic imaging, the cost of magnetic resonance imaging (MRI) and computerized axial tomography (CAT) scans were selected as the comparison basis. In our survey, we requested costs for all MRIs and CAT scans from participants, as well as costs for selected CPT codes. We used the CPT-specific cost data to confirm that cost differences are not likely due to a more or less complex mix of services within each category. Our results are shown in Exhibit 1.

For purposes of the survey, technical components only were used in the comparison. In the case where combined fees were provided, we estimated the technical component portion based on the respective 2003 Medicare RVRBS fee.

For office visits, we requested costs for the most commonly utilized CPT code, 99213. Results are shown in Exhibit 1.

Evaluation of Medicare and Medicaid allowed amounts are outside the scope of this analysis. They are defined by federal and state law and are published elsewhere.

Data/Participants

The survey request was sent to the following health insurance carriers: Anthem Blue Cross Blue Shield of Maine and New Hampshire, Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim Health Care, CIGNA HealthCare, and Aetna, Inc. All carriers except Aetna contributed data. Combined, these carriers represent the majority of commercial business in each of these three states.

The data reported was for calendar year 2003.

Some data was incomplete; for example, CIGNA provided category totals for inpatient stays, but not the DRG detail. Also, Anthem of New Hampshire was only able to provide inpatient data. See Exhibit 1 for details.

The psychiatric data reported by Anthem of New Hampshire was only for general hospital admissions and excluded specialty psychiatric hospitals. It is not directly comparable to the Maine or Massachusetts results, and is removed from Exhibit 1.

CIGNA did not report claim volumes. Milliman estimated the volumes for each service using an estimated market share relative to the other contributors in each state. We tested the sensitivity of this assumption and found that the final reported cost relativities between Maine and other states are not significantly sensitive to reasonable variations in the assumed CIGNA services market share.

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Important Limits and Caveats

The actual ratio of allowed charges between states may be different than reported in this letter for any or all of the following reasons, or others not listed:

- Not all carriers in each state contributed data. If the average charge for the non-contributing carriers is materially different than reported by these major carriers, our overall results could be affected.
- Provider contracts and reimbursement arrangements may have changed since 2003.
- Data collection and reporting within each of the companies and their systems may not be exactly equivalent. To the extent that the methods of counting services, assigning diagnoses, adjusting claims, etc. are different among the carriers, our overall results could be affected.
- Cost estimates were as of the date reported for a given carrier, ultimate claim costs may not be known for certainty until a significant passage of time.

Milliman understands that this letter and the accompanying report will be shared with the Commission to Study Maine's Hospitals. Again, Exhibit 1 should not be distributed without this letter accompanying it.

Thanks for the opportunity to participate on this project. If you have any questions, please call me at (610) 975-8093.

Sincerely,

A handwritten signature in black ink that reads "Jack Burke". The signature is written in a cursive, flowing style.

Jack P. Burke, F.S.A.
Consulting Actuary

JPB/lc/tm
Enclosure

Maine Association of Health Plans
Hospital / Medical Cost Survey
Allowed Charges Reported as of 2003
Exhibit 1

CMS DRG / CPT Code (1)	AP DRG	Description	Allowed per Day/Procedure					Allowed per Admit	
			Maine	Massa- chusetts	New Hampshire	Ratio of Maine to Mass	Ratio of Maine to NH	Ratio of Maine to Mass	Ratio of Maine to NH
Surgical Stays									
359	359	Uterine & Adnexa Proc for Non-Malignancy w/o CC				159%	142%	130%	127%
209	209	Major Joint & Limb reattachment procedures of lower extremity				146%	119%	143%	128%
167	167	Appendectomy w/o complicated principal diag w/o CC				159%	139%	151%	131%
494	494	Laparoscopic cholecystectomy w/o C.D.E. w/o CC				178%	123%	182%	108%
107	107	Coronary bypass w cardiac cath				119%	127%	156%	163%
All Surgical Stays			\$4,216	\$3,307	\$3,412	127%	124%	118%	121%
Medical Stays									
390	624, 628, 630	Neonate w other significant problems				115%	87%	87%	87%
143	143	Chest pain				205%	139%	176%	124%
183	183	Esophagitis, Gastroent & misc. digest disorders age>17 w/o cc				161%	124%	148%	119%
98	774, 775	Bronchitis & asthma age 0-17				118%	93%	118%	99%
14	14	Specific Cerebrovascular disorders except TIA				163%	114%	166%	137%
All Medical Stays			\$2,204	\$1,602	\$1,951	138%	113%	135%	129%
Maternity Delivery Stays									
373	373	Vaginal delivery w/o CC				123%	111%	118%	111%
371	371	Cesarean section w/o CC				167%	124%	147%	133%
All Maternity (Delivery/Non-Delivery) Stays			\$1,724	\$1,094	\$1,533	158%	112%	126%	119%
Psych/Subst Abuse Stays									
430	430	Psychoses				135%		111%	
522, 523	745, 748, 751	Alc/Drug Abuse or Depend w/o cc				121%		87%	
All Psych/Subst Abuse Stays (1)						128%		111%	
Total Hospital Stays			\$2,683	\$1,994	\$2,292	135%	117%	131%	131%
MRIs, Technical Components Only (2) (3)									
CPT 70553		MRI, brain w/o contrast material, followed by contrast material and further sequences				130%	162%		
CPT 72148		MRI, spinal canal w/o contrast material				169%	143%		
CPT 73721		MRI, any joint of lower extremity, w/o contrast material				177%	139%		
All MRIs, Technical Components Only						144%	143%		
CAT Scans, Technical Components Only (2) (3)									
CPT 70450		CAT scan, brain w/o contrast material				175%	170%		
CPT 72193		CAT scan, pelvis w/contrast materials				166%	240%		
CPT 74160		CAT scan, abdomen, w/contrast materials				194%	257%		
All CAT Scans, Technical Components Only						161%	204%		
Evaluation and Management Visits (3)									
CPT 99213		Office visit; expanded				105%	96%		

Notes:

- (1) For all the individual DRGs and CPT codes, as well as the Psych/Substance Abuse subtotal, data from CIGNA was not available. The ratio is based on information provided by remaining carriers.
- (2) MRI and CAT Scan figures for CIGNA contain both technical and global components. We allocated the total to technical only based on RBRVS fees.
- (3) Anthem data was not available for all diagnostic imaging and physician office visit data for New Hampshire.